

Ofgem Access and Forward-looking Charges Significant Code Review

Minutes

Meeting name	Challenge Group
Time	10.00 – 16.00
Date of meeting	24th July 2019
Location	Coin Street Neighbourhood, 108 Stamford St, Lambeth, London

Attendees

Elizabeth Allkins	EA	Ovo Energy
David Bird	DB	Octopus Investments
Caroline Bragg	CB	The Ade
Andrew Burgess	AB	Ofgem
Thomas Cahill	TC	Veolia
Patrick Cassels	PC	Ofgem
Andrew Conway	AC	Ofgem
Matthew Cullen	MC	EON
Peter Dennis	PD	Ecotricity
Chloe Dyson-Bird	CDB	Ameresco
Andrew Enzor	AE	Cornwall Energy
Jon Ferris	JF	Electron
Nicholas Gall	NG	Solar Trade Organisation
Andy Hadland	AH	Arenko
Beth Hanna	BH	Ofgem
Daniel Hickman	DH	Npower
Anna Jeffries	AJ	Ofgem
James Kerr	JK	Citizens Advice
Phil Lawton	PL	ES Catapult
Simon Lord	SL	Engie
Poppy Maltby	PM	Regen
Paul McGimpsey	PMc	ENA
Alison Meldrum	AM	Tata Steel Europe
George Moran	GM	Centrica

Paul	Mott	Pmo	EDF Energy
Graham	Oakes	GO	Graham Oakes
Silvia	Orlando	SO	Ofgem
Jon	Parker	JP	Ofgem
Richard	Partridge-Hicks	RPH	Eel Power
Nicola	Percival	NP	Innogy
Stephen	Perry	SP	Ofgem
Julia	Phillips	JPh	ENA
Bill	Reed	BR	RWE
Mike	Ryan	MR	Anesco
Katie	Stanyard	KS	ENA
David	Sykes	DS	Octopus
Mark	Tarry	MT	AMP PLC
Haren	Thillianathan	HT	Scottish Power
Aiden	Morris	Amo	Conrad Energy
Charles	Wood	CW	Energy UK

1 Welcome and introductions

1.1 AB began the meeting and gave an overview of the topics that will be included in the first and second working papers. He explained that between the two papers the entire scope of the Access and Forward-looking Charges SCR will be covered. In regard to timing AB reiterated that the focus in 2019 is the drafting and publication of the two working papers and collating feedback on these. These papers will set out the refinement of options ultimately leading to the publication of the draft conclusions and draft Impact Assessment (IA) during the summer of 2020. AB explained that the programme is currently at a critical stage of narrowing down a broad scope into specific proposals. AB then introduced JP to explain the process Ofgem will go through to refine and select the options to produce a shortlist.

2 Project update

2.1 JP gave an overview of the Approach chapter in the first working paper (that was shared in draft form with the CG in advance of the meeting) and of the modelling work that Ofgem will undertake to produce the IA. Having set out the SCR Guiding Principles in previous meetings, JP explained how Ofgem had broken down these Guiding Principles to specify how the assessment of options will be undertaken. PL asked whether the Guiding Principle 1 should be extended to cover gas as well as electricity. JP explained that whilst overall Ofgem and Government should be considering the right signals for gas usage, the scope of the SCR is already broad and gas policy will remain out of scope. AB added that if, once the draft proposal and IA is produced, it shows that the strong price signals are causing people to switch to gas then the programme would have to stand back and think how to address this. NP noted that it is crucial that the assessment and modelling of options focuses on value for money and not cheapness. Her observation to date is that the assessment of the SCR and of the TCR is focussing on cheapness. JP responded that the focus is on value for money and AB added this was different from a typical value for money assessment in that the SCR objective is to ensure that customers' charges are reflective of the incremental costs they bring to the network.

3 Update on Access rights survey and case Studies

3.1 SP explained that Ofgem had recently sent out a survey on Access rights to the Challenge Group and that they had received 23 responses from a variety of stakeholders (more generation organisations than demand). SP then gave an overview of the key takeaways from the responses and specifically that they had helpful information on how much companies were willing to pay for different types of access right. A further consistent theme was that access would need to be tailored to meet the needs of customers at particular sites under consideration. SP explained that Ofgem is still reviewing the feedback and that it will be used to inform work on access development, having already informed the Access Rights chapter in the draft working paper. He explained they would look to gather further feedback through the Charging Futures Forum in September and the Ofgem-led Large User Group. BR asked how the access options link to the network cost drivers of, adding that it is the cost drivers that determine the value of access. SP confirmed that Ofgem and the Delivery Group have been considering these links but that the early questions they have focused on are what influences users' decisions around access, including but not limited to the costs. BR noted that there are a lot of links between this work on access rights and the work that the Energy Networks Association (ENA) is doing on the DSO transition and that these link to big questions about local balancing markets and what they are designed to achieve.

3.2 SP explained that Ofgem had received feedback from members of the Challenge Group that they find it hard to understand how the options generated in the SCR relate to different types of user. To respond to this, SP explained, Ofgem have drafted the Case Study chapter in the working paper to try and show what the SCR is trying to achieve and how some of the options impact a range of different users. SP gave an overview of the four case studies described and explained that they are purely illustrative and that they don't cover Small Users at this stage, as they will be covered in the second working paper. BR raised that some of the case studies raise questions about security and planning standards. SP mentioned that Government have launched a review of engineering standards (outside of the SCR) as it is a key consideration. The meeting then broke out into groups to answer questions on the case studies and specifically whether the desired outcomes stated for each was accurate and whether any key user groups/scenarios were missing from the case studies and should be included. The group sent their responses into the Mentimeter survey. AB summarised the feedback received and responded to two questions relating to small users. Specifically, he answered questions asking why 'small users' were being treated differently in the SCR, and on why these case studies and the first working paper were not considering small users. AB explained that it is important that arrangements reflect the needs of consumers as appropriate for an essential service and that Ofgem want to ensure there is specific focus given to this in the SCR. He also reiterated that the second paper will consider how options could apply to small users and what protections should be in place.

4 Linkages with flex

4.1 AC introduced this section of the agenda, explaining that the purpose was to give an overview of the chapter in the working paper on the links between charging and access, and flexibility and how decisions made in the SCR need to assess impact on flexibility procurement. AC explained the matrix that Ofgem have produced that shows that the more significant the access choice the less there is to do through flexibility procurement. He then went through each of the criteria that Ofgem are using to assess Access, Charging and Procurement against to try to understand where the optimum position is in this matrix. The attendees broke into groups to discuss the contents of this chapter and provided feedback to Ofgem.

5 Access rights

5.1 SP gave an overview of the Access chapter of the working paper. He set out the different types of access rights being considered and the current thinking on the feasibility and desirability of

each. He explained that the assessment had been informed by the network companies and by the access survey completed by members of the Challenge Group. SP explained some of the key issues that had been identified in the implementation of some of the options, such as challenges around monitoring and enforcement relating to the Shared access option. SP then listed some of the areas where further work is required, including the need to further distinguish between sharing and trading of access rights to understand if these are substitutes for each other or whether they are complimentary. A further area that SP discussed was an assessment as to whether these reforms are applicable to the transmission charging arrangements. The meeting broke out into the individual groups again for the members to provide Ofgem with feedback on this chapter.

6 Distribution locational cost models

6.1 PC introduced the chapter of the working paper on the network cost models and explained it was set out in two key areas:

- Network cost models – looking at what are the costs that would be charged back; and
- Initial assessment of how those costs may vary locationally.

He gave an overview of the key concepts of Long Run Marginal Cost (LRMC) and Short Run Marginal Cost (SRMC) and that the paper looks at two ways to implement a SRMC type model, ex-ante or ex-post. He explained that based on the foundational analysis to date there seem to be significant disadvantages to implementing SRMC through administrative set pricing. The group had a brief discussion on this and BR noted that if there is sufficient network data and historical data of cost of constraint then it would be possible to run a SRMC model. PC agreed but mentioned it would require very rich network data of the network and the user. A further member of the group agreed that at this stage it would only be possible at Transmission and that you wouldn't be able to predict when the constraints would happen at distribution. PC then gave an overview of the LRMC model and which costs would be included in this model, who would receive the charge and the extent of locational granularity in the charge. A member of the group asked why the group were not looking at the value of building (i.e. adding generation) in urban networks instead of rural networks. PC explained this was being considered, that the group are trying to understand the marginal benefit that generation or distribution is adding to the network in different locations. He concluded by stating that the current working assumption by the Delivery Group is that charges should continue to be set based on a LRMC model. The Challenge Group broke into the five groups to discuss this section of the paper and whether they agreed with the emerging conclusions.

7 DUoS and TNUoS charging design

7.1 Initially focussing on distribution use of system (DUoS) charges, BH explained that the charge design note (published in April 19) set out five options and that the working paper expands to list the advantages and disadvantages of these and how they are impacted by the analysis being produced by the other subgroups. BH then explained the next steps are to collect more data to support the analysis and to take more learnings from the other subgroups. One member of the Challenge Group asked how this work aligns with the work in the TCR on behind the meter generation. PC answered that there is a strong link with the charge design options and the system of credits and charges under review in the locational cost models group as one of the strengths of keeping the charge and credits is that it doesn't matter if you are in front or behind the meter. A member also suggested that Ofgem need to be careful not to create a distortion with the wholesale market.

7.2 Following this, BH gave an update on the assessment of the transmission network use of system (TNUoS) charge for demand customers. To do this, Ofgem have assessed the same five options as used in the DUoS assessment and identified initial views and feasibility between transmission and distribution on each. BH explained that they recognise that there have been some criticisms of the Triad approach and so have identified some amendments that could be made to drive

more cost reflective behaviours. These amendments were set out on the slides presented.

8 DUoS and TNUoS charging design

8.1 The group was then split up and the five groups discussed how the potential options for reform could be packaged up to benefit each of the users identified in the case studies.

9 AOB

9.1 JP closed the meeting and raised three AOB items:

- Feedback on the draft working paper: JP asked for the Challenge Group to send any further feedback on the draft paper by the end of the week (Friday 26th July).
- Small Users subgroup: he explained that this group was due to kick off soon and that they had received a lot of interest to join this group. JP stated that they would not turn down any of these requests but that the work will be focused on two key areas and anyone who does join would have to be prepared to commit to a certain level of work and input. He explained that there would be two key workstreams within the subgroup:
 - One workstream to understand how consumers might engage with different options, building on work already done with the Suppliers. This workstream will be ad-hoc (rather than a standing group) and would ideally be formed of a group of suppliers along with Ofgem and Citizens Advice.
 - The other workstream would be understanding the impact on networks and iDNOs and so would ideally be formed of DNOs and iDNOs.
- Finalising the working paper: JP explained that the feedback received in the session would be used to update and inform the final draft of the working paper which they are intending to publish in August. He explained that the Challenge Group would be able to provide further feedback at the Charging Futures Forum in September and that the next Challenge Group in September would be an opportunity to provide an early update on the work being progressed on the second working paper.

Next Challenge Group meeting:

Time / Date	Location
30 th September 2019, 10.00-16.00	ENA Offices: 4 More London Riverside, SE1 2AU